

Oil price collapse will accelerate data center investment in 2016

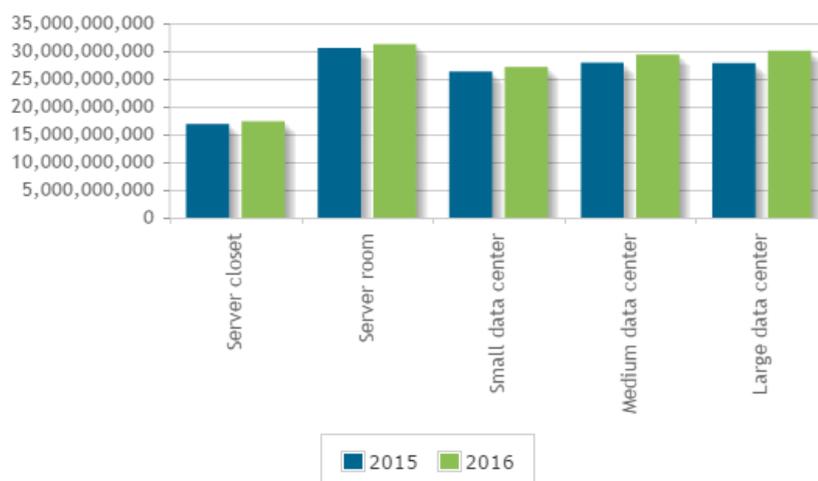
Shanghai, Palo Alto, Singapore and Reading (UK)

Oversupply of oil in the global economy is set to accelerate data center investment. Canalys forecasts that the large data center segment will grow 8% in 2016, as enterprises and service providers become more ambitious with the size of their facilities. Oil prices have declined more than 70% since mid-2014, and will remain low as production ramps up across the US and Middle East. Data centers, with their monolithic energy consumption, will benefit from cheaper electricity as wholesale gas prices decline. Investment will focus on larger facilities, as energy becomes less of a constraint on operating costs.

Cheaper oil will accelerate a market that is already growing. Pre-eminent cloud service providers have already reacted to data sovereignty concerns by investing in the expansion of their global cloud footprint. This will continue and industry standard servers, network security and virtualization technologies will become key growth categories. Incumbent data center infrastructure vendors will pivot their focus towards high-end large and hyperscale facilities, but will face stiff competition from cheaper ODM alternatives.



Data center infrastructure, Worldwide, value forecasts (\$), 2015 - 2016



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‘Oil prices will amplify data center investment this year, but that is just one part of the story’, said Research Analyst Ben Stanton. ‘Software-defined environments are unlocking more value in hardware than ever before. Customers are being forced to rethink their IT strategies with features such as agile on-

demand and as-a-service offerings, faster application deployment, and greater infrastructure flexibility and scalability. Additionally, sales processes are becoming increasingly applications-led, which lends itself nicely to digital transformation projects involving big data, analytics and IoT. But infrastructure vendors will not have it all their own way. Hardware will become increasingly commoditized as profit margins transition to software and services. As ASPs fall, shipment values will soften. We forecast that worldwide data center infrastructure value will exceed US\$135 billion in 2016, which represents 4.4% growth, but we would expect unit growth to exceed this considerably.'

Data center shipment forecast data is taken from Canalys' Data Center Analysis service, which tracks the leading data center infrastructure vendors by both shipments and value.

If you are interested in further information, please contact us:

➤ Canalys EMEA: +44 118 984 0520

Ben Stanton: ben_stanton@canalys.com +44 118 984 0525

Matthew Ball: matthew_ball@canalys.com +44 118 984 0535

➤ Canalys APAC (China): +86 21 2225 2888

Nicole Peng: nicole_peng@canalys.com +86 150 2186 8330

➤ Canalys Americas: +1 650 681 4488

Chris Jones: chris_jones@canalys.com +1 650 450 1513

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Americas: Suite 316, 855 El Camino Real, Palo Alto, CA 94301, US | tel: +1 650 681 4488

APAC: Room F/G, 7/F, Jinjiang Xiangyang Tower, 993 Nanjing West Road, Jing An District, Shanghai, 200041, China | tel: +86 21 2225 2888

APAC: 133 Cecil Street, Keck Seng Tower, #13-02/02A, Singapore 069535 | tel: +65 6671 9399

EMEA: Diddenham Court, Lambwood Hill, Grazeley, Reading RG7 1JQ, UK | tel: +44 118 984 0520

e-mail: inquiry@canalys.com | web: www.canalys.com